

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Arcada Township	County Gratiot
Fiscal Year End March 31, 2006	Opinion Date June 25, 2006	Date Audit Report Submitted to Sate September 22, 2006	

We affirm that:

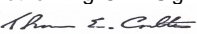
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo CPAs, P.C.		Telephone Number 989-463-6108	
Street Address 7810 N. Alger Rd.		City Alma	State MI
Authorizing CPA Signature 		Printed Name Thomas E. Coulter	License Number 1612544

**Arcada Township**  
**Gratiot County, Michigan**  
**Annual Financial Statements**  
**and**  
**Auditors' Report**  
**March 31, 2006**

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**Arcada Township**  
**List of Elected and Appointed Officials**  
**March 31, 2006**

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Township Board

Douglas Merchant – Supervisor

Barbara Prikasky – Treasurer

Alfred Silhavy – Clerk

Gordon Aurand – Trustee

Keith Flegel – Trustee

## Independent Auditors' Report

To the Members of the Township Board  
Arcada Township  
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Arcada Township as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Arcada Township as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Yeo & Yeo, P.C.*

June 25, 2006  
Alma, Michigan

**Arcada Township  
Management's Discussion and Analysis  
Year Ended March 31, 2006**

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Our discussion and analysis of Arcada Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006.

Total net assets related to the Township's governmental activities are \$836,097. The amount that is unrestricted is \$827,766. The total net assets related to the Township's business-type activities are \$264,392, of which \$110,849 is unrestricted.

State shared revenues are our largest revenue source. In light of continuing state budget problems, and constant threats to take away all revenue sharing, the Township has reacted by invoking tighter controls over all expenditures.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Arcada Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

**Arcada Township**  
**Management's Discussion and Analysis**  
**Year Ended March 31, 2006**

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**Belvidere Township as a Whole**

The following table shows, in a condensed format, the net assets as of March 31, 2006.

Table 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets	\$ 865,857	\$ 112,109	\$ 977,966
Restricted investments	-	15,983	15,983
Capital assets, net	<u>3,058</u>	<u>137,560</u>	<u>140,618</u>
Total Assets	<u>868,915</u>	<u>265,652</u>	<u>1,134,567</u>
Current liabilities	<u>32,818</u>	<u>1,260</u>	<u>34,078</u>
Total net assets	<u><u>\$ 836,097</u></u>	<u><u>\$ 264,392</u></u>	<u><u>\$ 1,100,489</u></u>

Arcada Township's net assets of governmental activities are \$836,097, of which \$827,766 is classified as unrestricted and of the remaining \$8,331, \$3,058 is invested in capital assets, and \$5,273 is restricted for prepaid items. Arcada Township's net assets of business-type activities are \$264,392, of which \$110,849 is classified as unrestricted and of the remaining \$153,543, \$137,560 is invested in capital assets, and \$15,983 is restricted for investments.

**Arcada Township**  
**Management's Discussion and Analysis**  
**Year Ended March 31, 2006**

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The following table shows, in a condensed format, the statement of activities as of March 31, 2006.

Table 2

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Revenue</b>			
Program revenue			
Charges for services	\$ -	\$ 27,276	\$ 13,825
General revenue:			
Property taxes	107,253	-	293,791
State-shared revenue	121,765	-	182,822
Unrestricted investment earnings	16,377	2,925	12,142
Miscellaneous	3,714	-	29,761
	<u>249,109</u>	<u>30,201</u>	<u>532,341</u>
<b>Program expenses</b>			
General government	72,732	-	151,725
Public safety	59,257	-	36,215
Public works	46,449	-	30,681
Health and welfare	7,441	-	45,541
Community and economic development	9,619	-	14,302
Sewer	-	40,019	112,373
	<u>195,498</u>	<u>40,019</u>	<u>390,837</u>
<b>Change in net assets</b>	<u>\$ 53,611</u>	<u>\$ (9,818)</u>	<u>\$ 141,504</u>



**Arcada Township  
Management's Discussion and Analysis  
Year Ended March 31, 2006**

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**Governmental Activities**

Arcada Township's total governmental activity revenues were \$249,109 and total business-type revenues were \$30,201. There was a slight increase in State-shared revenue. Unrestricted investment earnings also increased in the current year.

Governmental activity expenditures of \$195,498 and business-type expenses of \$40,019 were recorded for the year. This included increases in property and liability insurance rates and the cost of public safety. To offset this, the Township closely monitored its spending in all other areas.

**Arcada Township's Funds**

The fund financial statements provide detailed information about the most significant funds, not Arcada Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as show accountability for certain activities.

a) **General Fund**

Functions relating to the general governmental activities of the Township, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increase in fund balance of \$51,468 in the current year.

b) **Special Revenue**

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

c) **Fiduciary Fund**

The Fiduciary Fund is custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

**Arcada Township  
Management's Discussion and Analysis  
Year Ended March 31, 2006**

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**General Fund Budgetary Highlights**

Over the course of the year, the Township Board monitors and amends the budget to account for unanticipated events during the year. State revenue is staying level but expenses are increasing. Arcada Township continues to budget carefully and monitor all expenditures to keep the budget in line with revenue.

**Capital Assets**

At March 31, 2006, Arcada Township has \$581,419 invested in a wide range of capital assets, including land, buildings, machinery and equipment, and a sewer system. The total amount of accumulated depreciation as of March 31, 2006 was \$440,801. The net capital asset balances at the end of the fiscal year are \$3,058 in the governmental funds and \$137,560 in the business-type funds.

**Economic Factors and Next Year's Budgets and Rates**

Arcada Township's budget for next year calls for a 3.2% increase on property tax rates. However, the Township needs to continue to monitor its budget very closely. State revenue-sharing payments have the potential to decrease due to State cutbacks and less sales tax receipts at the State level. Other revenues appear to be staying level.

Despite these concerns, the Township will continue to operate as efficiently as possible in the next fiscal year.

**Contacting Arcada Townships Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of Arcada Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township Board.

**Arcada Township**  
**Statement of Net Assets**  
**March 31, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 823,455	\$ 105,206	\$ 928,661
Receivables			
Taxes	5,575	-	5,575
Customers	-	6,903	6,903
Accrued interest and other	3,153	-	3,153
Due from other units of government	28,401	-	28,401
Prepaid items	5,273	-	5,273
Restricted assets			
Investments	-	15,983	15,983
Capital assets, net	3,058	137,560	140,618
 Total assets	 868,915	 265,652	 1,134,567
<b>Liabilities</b>			
Accounts payable	10,604	-	10,604
Accrued and other liabilities	22,214	1,260	23,474
 Total liabilities	 32,818	 1,260	 34,078
<b>Net Assets</b>			
Invested in capital assets	3,058	137,560	140,618
Restricted for:			
Investments	-	15,983	15,983
Prepaid items	5,273	-	5,273
Unrestricted	827,766	110,849	938,615
 Total net assets	 \$ 836,097	 \$ 264,392	 \$ 1,100,489

See Accompanying Notes to Financial Statements

**Arcada Township**  
**Statement of Activities**  
**For the Year Ended March 31, 2006**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs							
<b>Primary government</b>							
Governmental activities							
General government	\$ 72,732	\$ -	\$ -	\$ -	\$ (72,732)	\$ -	\$ (72,732)
Public safety	59,257	-	-	-	(59,257)	-	(59,257)
Public works	46,449	-	-	-	(46,449)	-	(46,449)
Health and welfare	7,441	-	-	-	(7,441)	-	(7,441)
Community and economic development	9,619	-	-	-	(9,619)	-	(9,619)
Total governmental activities	195,498	-	-	-	(195,498)	-	(195,498)
Business-type activities							
Sewer	40,019	27,276	-	-	-	(12,743)	(12,743)
Total primary government	<u>\$ 235,517</u>	<u>\$ 27,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(195,498)</u>	<u>(12,743)</u>	<u>(208,241)</u>
General revenues							
Property taxes					107,253	-	107,253
State shared revenue					121,765	-	121,765
Unrestricted investment earnings					16,377	2,925	19,302
Miscellaneous					3,714	-	3,714
Total general revenues					<u>249,109</u>	<u>2,925</u>	<u>252,034</u>
Change in net assets					53,611	(9,818)	43,793
Net assets - beginning of year					<u>782,486</u>	<u>274,210</u>	<u>1,056,696</u>
Net assets - end of year					<u>\$ 836,097</u>	<u>\$ 264,392</u>	<u>\$ 1,100,489</u>

See Accompanying Notes to Financial Statements

**Arcada Township  
Governmental Funds  
Balance Sheet  
March 31, 2006**

	<u>General</u>	<u>Special Revenue Fund Fire</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 653,495	\$ 169,960	\$ 823,455
Receivables			
Taxes	2,603	2,972	5,575
Accrued interest and other	2,047	1,391	3,438
Due from other units of government	28,401	-	28,401
Due from other funds	17,197	-	17,197
Prepaid items	3,574	1,699	5,273
Total assets	<u>\$ 707,317</u>	<u>\$ 176,022</u>	<u>\$ 883,339</u>
<b>Liabilities</b>			
Accounts payable	\$ 10,604	\$ -	\$ 10,604
Accrued and other liabilities	22,214	-	22,214
Due to other funds	285	17,197	17,482
Deferred revenue	1,856	-	1,856
Total liabilities	<u>34,959</u>	<u>17,197</u>	<u>52,156</u>
<b>Fund Balances</b>			
Reserved for:			
Prepaid items	3,574	1,699	5,273
Unreserved, reported in:			
General fund	668,784	-	668,784
Special revenue funds	-	157,126	157,126
Total fund balances	<u>672,358</u>	<u>158,825</u>	<u>831,183</u>
Total liabilities and fund balances	<u>\$ 707,317</u>	<u>\$ 176,022</u>	<u>\$ 883,339</u>

See Accompanying Notes to Financial Statements

**Arcada Township  
Governmental Funds  
Reconciliation of Fund Balances of Governmental Funds  
to Net Assets of Governmental Activities  
March 31, 2006**

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<b>Total fund balances for governmental funds</b>	\$ 831,183
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,058
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	<u>1,856</u>
<b>Net assets of governmental activities</b>	<u>\$ 836,097</u>

**Arcada Township**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended March 31, 2006**

	General	Special Revenue Fund Fire	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 50,085	\$ 57,168	\$ 107,253
Licenses and permits	2,160	-	2,160
State revenue sharing	121,765	-	121,765
Interest income	12,047	2,474	14,521
Other revenue	1,554	-	1,554
Total revenues	<u>187,611</u>	<u>59,642</u>	<u>247,253</u>
<b>Expenditures</b>			
Current			
General government	68,659	-	68,659
Public safety	-	59,257	59,257
Public works	46,449	-	46,449
Health and Welfare	7,441	-	7,441
Community and economic development	9,320	-	9,320
Other functions	4,274	-	4,274
Total expenditures	<u>136,143</u>	<u>59,257</u>	<u>195,400</u>
Net change in fund balance	51,468	385	51,853
Fund balance - beginning of year	<u>620,890</u>	<u>158,440</u>	<u>779,330</u>
Fund balance - end of year	<u>\$ 672,358</u>	<u>\$ 158,825</u>	<u>\$ 831,183</u>

See Accompanying Notes to Financial Statements

**Arcada Township**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended March 31, 2006**

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**Net change in fund balances - Total governmental funds** \$ 51,853

Total change in net assets reported for governmental activities in the statement of activities  
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those  
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (98)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue  
in the funds.

Other revenue 1,856

**Change in net assets of governmental activities** **\$ 53,611**



**Arcada Township  
Proprietary Funds  
Statement of Net Assets  
March 31, 2006**

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	<u>Enterprise Fund</u>
	<u>Sewer</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 105,206
Receivables	
Customers	6,618
Due from other funds	<u>285</u>
Total current assets	<u>112,109</u>
Noncurrent assets	
Restricted assets	
Investments	15,983
Capital assets, net	<u>137,560</u>
Total noncurrent assets	<u>153,543</u>
Total assets	<u>265,652</u>
<b>Liabilities</b>	
Current liabilities	
Accrued and other liabilities	<u>1,260</u>
<b>Net Assets</b>	
Invested in capital assets	137,560
Restricted for:	
Investments	15,983
Unrestricted	<u>110,849</u>
Total net assets	<u>\$ 264,392</u>

See Accompanying Notes to Financial Statements

**Arcada Township**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended March 31, 2006**

	<u>Enterprise Fund</u>
	<u>Sewer</u>
<b>Operating revenue</b>	
Customer fees	\$ 27,276
<b>Operating expenses</b>	
Personnel services	1,260
Contractual services	23,906
Utilities	764
Other expenses	333
Depreciation	<u>13,756</u>
Total operating expenses	<u>40,019</u>
Operating loss	<u>(12,743)</u>
<b>Nonoperating revenue</b>	
Interest income	<u>2,925</u>
Change in net assets	(9,818)
Net assets - beginning of year	<u>274,210</u>
Net assets - end of year	<u>\$ 264,392</u>

See Accompanying Notes to Financial Statements

**Arcada Township  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended March 31, 2006**

	Business-type Activities - Enterprise Fund
	<u>Sewer</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 27,215
Payments to suppliers	(24,943)
Payments to employees	<u>(1,260)</u>
Net cash provided by operating activities	<u>1,012</u>
<b>Cash flows from investing activities</b>	
Proceeds from sales and maturities of investments	16,115
Purchases of investments	(15,000)
Interest received	<u>2,925</u>
Net cash provided by investing activities	<u>4,040</u>
Net increase in cash and cash equivalents	5,052
Cash and cash equivalents - beginning of year	<u>100,154</u>
Cash and cash equivalents - end of year	<u>\$ 105,206</u>
<b>Reconciliation of operating income loss to net cash provided by operating activities</b>	
Operating loss	\$ (12,743)
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	13,756
Changes in assets and liabilities	
Receivables (net)	<u>(61)</u>
Net cash provided by operating activities	<u>\$ 1,012</u>

See Accompanying Notes to Financial Statements

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

Arcada Township is governed by an elected five-member Board. The accompanying financial statements present the government.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Joint Venture**

The Township is a member of the Rural Urban Fire Control Board, which is a joint venture between the City of Alma, Arcada Township, Pine River Township, Seville Township and Sumner Township. The Board provides fire protection and suppression services in the Fire District by inspecting and maintaining standard safety, rescue, and disaster response. The membership of the Board is composed of six members. The Township is represented by the Supervisor. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The fire fighting equipment is owned jointly by the Board. The City of Alma provides day-to-day management oversight of this joint venture.

The financial activities of the Rural Urban Fire Control Board are reported in the City of Alma's financial statements as a special revenue fund.

The following is summary financial information for the Rural Urban Fire Control Board as of June 30, 2005 (latest available audited financial statements).

Total assets	\$ 201,233
Total liabilities	<u>1,644</u>
Fund balance	<u>\$ 199,589</u>
Total revenues	\$ 410,115
Total expenditures	<u>618,300</u>
Net decrease in fund balance	<u>\$ (208,185)</u>

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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The Township's share of fixed assets is \$72,554. Complete financial statements of the Rural Urban Fire Control Board can be obtained by writing:

City of Alma  
P.O. Box 278  
Alma, Michigan 48801

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for property taxes and other revenue that is restricted for providing fire protection.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, liabilities, and net assets or equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The property tax levy runs from January 1<sup>st</sup> to December 31<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Property taxes become a lien on the last day of the levy year and are due on or before February 14<sup>th</sup> with the final collection date of February 28<sup>th</sup>. Real property taxes uncollected as of February 28<sup>th</sup> are purchased by the County of Gratiot and remitted to the Township. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

The 2005 taxable valuation of the government totaled \$43,617,748, on which ad valorem taxes consisted of 0.9436 mills for operating purposes and 1.3108 mills for fire protection purposes. This resulted in \$41,153 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 10 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

### **Comparative data**

Comparative data is not included in the government's financial statements.

## **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Budgetary information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

At the first Township Board meeting in April, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing April 1<sup>st</sup>. Public hearings are held to obtain taxpayer comments and the budget is legally adopted by a majority vote of the Township Board.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Budget appropriations lapse at the end of each fiscal year.

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

**Excess of expenditures over appropriations**

During the year ended March 31, 2006, the Township incurred expenditures in the General Fund in excess of the amount appropriated as follows:

<u>Fund</u>	<u>Total</u> <u>Appropriation</u>	<u>Amount</u> <u>Expended</u>	<u>Unfavorable</u> <u>Variance</u>
General Fund			
Health and welfare	\$ 7,000	\$ 7,441	\$ 441

**NOTE 3 - DEPOSITS AND INVESTMENTS**

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Restricted</u> <u>Investments</u>
Governmental activities	\$ 823,455	\$ -
Business-type activities	<u>105,206</u>	<u>15,983</u>
Total	<u>\$ 928,661</u>	<u>\$ 15,983</u>

The breakdown between deposits and investments is as follows:

	<u>Primary</u> <u>Government</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 928,661
Investments in securities, mutual funds and similar vehicles	<u>15,983</u>
	<u>\$ 944,644</u>

As of year end, the government had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Federal Home Loan Mortgage Corp Medium Term Note	\$ 14,406	3/15/2015	AAA/Aaa	Fitch Ratings/Moody's Investor Services
GNMA Guaranteed Pass Through Certificate	117	7/15/2007	AAA	GSC
GNMA Guaranteed Pass Through Certificate	633	6/15/2008	AAA	GSC
GNMA Guaranteed Pass Through Certificate	<u>827</u>	1/15/2008	AAA	GSC
	<u>\$ 15,983</u>			

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates



**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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*Credit risk* – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$546,338 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments* – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government's investment policy, the government's investments are held by a counterparty and are not insured.

**NOTE 4 - RECEIVABLES AND DEFERRED REVENUE**

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
<b>Primary government</b>		
Accrued interest and other	\$ 40	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
<b>Primary government</b>	
Other revenue	\$ 1,856

**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Capital assets being depreciated				
Buildings, additions and improvements	24,000	-	-	24,000
Machinery and equipment	4,179	-	-	4,179
Total capital assets being depreciated	28,179	-	-	28,179
Less accumulated depreciation for				
Buildings, additions and improvements	24,000	-	-	24,000
Machinery and equipment	4,023	98	-	4,121
Total accumulated depreciation	28,023	98	-	28,121
Net capital assets being depreciated	156	(98)	-	58
Governmental activities capital assets, net	<u>\$ 3,156</u>	<u>\$ (98)</u>	<u>\$ -</u>	<u>\$ 3,058</u>
 <b>Business-type activities</b>				
Capital assets being depreciated				
Sewer system	\$ 550,240	\$ -	\$ -	\$ 550,240
Less accumulated depreciation for				
Sewer system	398,924	13,756	-	412,680
Net capital assets being depreciated	151,316	(13,756)	-	137,560
Business-type capital assets, net	<u>\$ 151,316</u>	<u>\$ (13,756)</u>	<u>\$ -</u>	<u>\$ 137,560</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 98
 <b>Business-type activities</b>	
Sewer	<u>13,756</u>
Total primary government	<u>\$ 13,854</u>

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due from/to other funds</b>		
General Fund	Fire Fund	\$ 17,197
Sewer Fund	General Fund	<u>285</u>
		<u>\$ 17,482</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

**NOTE 9 - RESTRICTED ASSETS**

The balances of the restricted assets accounts in the Enterprise Funds are as follows:

Restricted investments	\$ 15,983
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**Arcada Township**  
**Notes to Financial Statements**  
**March 31, 2006**

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These investments are restricted because they will not mature within one year.

**NOTE 10 - RISK MANAGEMENT**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined contribution pension plan**

The Township has a defined contribution pension plan covering all elected officials and the zoning officer. The Township contributes 5% - 10% of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2006 was \$4,544. Beyond the required defined contribution, the Township is not liable for any future obligations of the pension plan that cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**Arcada Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended March 31, 2006**

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Taxes				
Property taxes	\$ 43,000	\$ 43,000	\$ 41,153	\$ (1,847)
Administration fee	10,000	10,000	8,932	(1,068)
Licenses and permits	3,000	3,000	2,160	(840)
State revenue sharing	116,965	116,965	121,765	4,800
Interest income	1,500	1,500	12,047	10,547
Other revenue	-	-	1,554	1,554
Transfer in	10,000	10,000	-	(10,000)
Total revenues	<u>184,465</u>	<u>184,465</u>	<u>187,611</u>	<u>3,146</u>
<b>Expenditures</b>				
General government				
Township board	25,933	25,933	14,091	(11,842)
Supervisor	12,803	12,803	20,233	7,430
Clerk	13,333	13,333	12,280	(1,053)
Board of review	1,190	1,190	884	(306)
Treasurer	13,334	13,334	12,283	(1,051)
Assessor	7,852	7,852	3,501	(4,351)
Elections	3,000	3,000	-	(3,000)
Buildings and grounds	3,000	3,000	3,539	539
Cemetery	1,935	1,935	1,848	(87)
Total general government	<u>82,380</u>	<u>82,380</u>	<u>68,659</u>	<u>(13,721)</u>
Public works				
Drains	5,000	5,000	5,305	305
Highways, streets and bridges	<u>60,000</u>	<u>60,000</u>	<u>41,144</u>	<u>(18,856)</u>
Total public works	<u>65,000</u>	<u>65,000</u>	<u>46,449</u>	<u>(18,551)</u>

See Accompanying Notes to Financial Statements

**Arcada Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended March 31, 2006**

	Budgeted Amounts			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Health and welfare				
Ambulance	\$ 7,000	\$ 7,000	\$ 7,441	\$ 441
Community and economic development				
Planning	6,595	6,595	2,333	(4,262)
Zoning	<u>6,337</u>	<u>6,337</u>	<u>6,987</u>	<u>650</u>
Total community and economic development	<u>12,932</u>	<u>12,932</u>	<u>9,320</u>	<u>(3,612)</u>
Other functions				
Insurance and bonds	<u>4,800</u>	<u>4,800</u>	<u>4,274</u>	<u>(526)</u>
Transfers out	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Total expenditures	<u>182,112</u>	<u>182,112</u>	<u>136,143</u>	<u>(45,969)</u>
Excess of revenues over expenditures	2,353	2,353	51,468	49,115
Fund balance - beginning of year	<u>620,890</u>	<u>620,890</u>	<u>620,890</u>	<u>-</u>
Fund balance - end of year	<u>\$ 623,243</u>	<u>\$ 623,243</u>	<u>\$ 672,358</u>	<u>\$ 49,115</u>

**Arcada Township**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Fire Fund**  
**For the Year Ended March 31, 2006**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 60,000	\$ 60,000	\$ 57,168	\$ (2,832)
Interest income	-	-	2,474	2,474
Total revenues	60,000	60,000	59,642	(358)
<b>Expenditures</b>				
Current				
Public safety	62,300	62,300	59,257	(3,043)
Excess (deficiency) of revenues over expenditures	(2,300)	(2,300)	385	2,685
Fund balance - beginning of year	158,440	158,440	158,440	-
Fund balance - end of year	\$ 156,140	\$ 156,140	\$ 158,825	\$ 2,685

See Accompanying Notes to Financial Statements



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Phone (989) 463-6108  
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June 25, 2006

To the Township Board  
Arcada Township  
Gratiot County, Michigan

In planning and performing our audit of the financial statements of Arcada Township for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. As a result of the aforementioned study, we became aware of the following matters that are an opportunity for strengthening internal control and operating efficiency. The following summarizes our comments and suggestions regarding these matters.

#### SEGREGATION OF DUTIES FOR THE TAX ACCOUNT

During inquiry with township employees regarding internal control procedures for cash disbursements, it was noted that the Treasurer conducts all activity in the tax account including writing all checks, signing and mailing the checks, and doing the bank reconciliation. We suggest that the Clerk sign and mail the tax account checks. We also recommend that the Clerk or a board member receive and review the unopened bank statements before passing them along to the Treasurer for reconciliation. This will increase the segregation of duties in the tax account.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with Township personnel, and we will be happy to discuss with you, at your convenience, any accounting or reporting issues for which you would like additional information or guidance. We are grateful for the opportunity to be of service to the Township and would appreciate any referrals or recommendations you might have for ways that we can improve our service to you.

This report is intended solely for the information and use of the Township Board, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Yeo & Yeo, P.C.*

YEO & YEO, P.C.  
CPAs and Business Consultants